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November 5, 1996

Federal Communications Commission
Office of Secretary

BY COURIER

William F. Caton, Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

**EX PARTE
PRESENTATION**

**Re: Implementation of the Pay Telephone Reclassification and
Compensation Provisions of the Telecommunications Act
of 1996, CC Docket No. 96-128**

Dear Mr. Caton:

On behalf of the American Public Communications Council (APCC), we submit the following written ex parte presentation concerning estimated savings to long distance carriers and customers from removal of LEC payphones from regulated accounts. I would ask that you include these materials in the record of this proceeding.

Assessments of the overall impact of payphone compensation on long distance rates must take account of the savings to long distance carriers and their customers from removal of LEC payphones from regulated accounts. The total savings to interstate long distance customers from removing the payphone operations from the interstate CCL access charges can be conservatively estimated using data obtained from the 1995 Preliminary Statistics of Common Carriers (SOCC). Table 2.12 of the 1995 Preliminary SOCC reported total carrier common line revenue for all reporting LECs for the year 1995 as \$10,738,000,000. The payphone-attributed portion of this total can be estimated by taking the ratio of payphone-attributed revenue requirement to the total revenue requirement for the CCL charge. As described below, this ratio is estimated to be 3.32%. The revenue requirement attributed to the payphone piece of the CCL charge is determined by adding a rate of return on the payphone investment plus the associated taxes, to the operating expenses allocated to payphone CCL charge. This information, except the return, can be found on Table 2.12 of the 1995 Preliminary SOCC. The pretax return is estimated to be 15.5% using a 60% equity ratio and a 40% debt ratio with cost rates of 12.5% for equity and 8.5% for debt. The combined state and federal income tax rate is estimated at 37.25%. The same calculations can be performed for the total

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CCL-related plant and expense. The payphone revenue requirement is estimated at \$357,817,000 and the total CCL revenue requirement is estimated at \$10,771,508,000. Dividing the payphone revenue requirement by the total CCL revenue requirement produces a ratio of 3.32%. Multiplying 3.32% times the total CCL revenue of \$10,738,000,000 indicates that interstate customers will save approximately \$356,502,000, at minimum, once the payphone investment and expenses are removed from the CCL charge.

Section 276 of the Act also requires that intrastate payphone subsidies be removed, including subsidies from the access charges paid by IXC's and from the MTS rates paid by LEC's long distance customers. The effect on intrastate toll rates of removing the payphone operations from the intrastate operations of LEC companies is estimated below using two methods. Each approach assumes that the intrastate long distance subsidy for LEC payphones is proportionate to the interstate subsidy. Under the first method, the interstate CCL payphone savings is compared to the total interstate revenue for all reporting LECs. This ratio, 1.6%¹, is then applied to total intrastate toll and access revenue of \$17,717,842,000 to estimate the intrastate reduction in access charges and MTS rates. This calculation indicates that the intrastate access charges and toll rates would be reduced by \$283,485,000.

Under the second method, the ratio of the number of intraLATA toll calls and interLATA intrastate toll calls to interLATA interstate toll calls is used to estimate the impact on intrastate toll rates and access charges. Applying this ratio of 85.77%² to the interstate CCL payphone revenue requirement savings of \$356,502,000 produces intrastate savings of \$305,772,000.

Although these estimates are calculated using two independent methods, there is only a 7% difference between them. It would be reasonable to conclude that the intrastate savings associated with removal of the payphone operations from intrastate CCL charges and toll rates would produce savings between \$283,485,000 and \$305,772,000 -- for an average of \$294,629,000.

¹ Calculated as follows: (\$356,502,000 Payphone Interstate CCL Access Charge Savings)/(\$22,244,158,000 Interstate Access Charges) -- 1.60%.

² Calculated as follows: (23,312,130 IntraLATA Toll Calls + 20,102,505 InterLATA intrastate Toll Calls)/(50,615,536 InterLATA interstate Toll Calls)=85.77%. See Table 2.10 of the 1995 Preliminary SOCC.

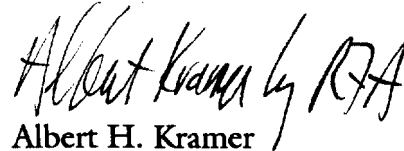
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Combining the interstate and intrastate estimates results in total estimated savings for long distance carriers and customers of roughly \$650,000,000 annually.

If you have any questions concerning this matter, please contact me at (202) 828-2226.

Thank you for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Albert H. Kramer", followed by a stylized monogram or set of initials "RA".

Albert H. Kramer

AHK/nw

cc: J. Muleta

M. Carowitz

M. Richards

J. Casserly

R. Spangler

R. Baca

D. Gonzalez

J. Nakahata

Attachment

Calculations of Interstate CCL Access Charge Savings (SOCC Table 2.12)

	Payphone	Total
Expenses	\$301,391,000	\$ 7,963,380,000
Investment	\$923,040,000	\$38,334,129,000
Less Reserves	<u>\$559,002,000</u>	<u>\$20,217,170,000</u>
Net Investment	\$364,038,000	\$18,116,959,000
Pre-Tax Return	15.5%	15.5%
Return Plus Taxes	\$ 56,426,000	\$ 2,808,128,000
Return Plus Expenses	\$357,817,000	\$10,771,508,000
Payphone as a Percent of Total: $\$357,817,000 / \$10,771,508,000 = 3.32\%$		

PRELIMINARY STATISTICS OF COMMUNICATIONS COMMON CARRIERS

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TABLE 2.12-JURISDICTIONAL STATISTICS OF TELEPHONE CARRIERS REPORTING QUARTERLY TO THE COMMISSION
AS OF DECEMBER 31, 1995 AND FOR THE YEAR THEN ENDED - CONTINUED

ALL REPORTING LOCAL EXCHANGE COMPANIES

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

LINE NO.	ROW NO.		PAY TELEPHONE	COMMON LINE INSIDE WIRE	BASE FACTOR PORTION	TOTAL
SELECTED INCOME STATEMENT ACCOUNTS						
REVENUES						
1	1010	BASIC LOCAL SERVICE	N/A	N/A	N/A	N/A
2	1020	NETWORK ACCESS SERVICES	N/A	N/A	N/A	10,877,886
3	1030	TOLL NETWORK SERVICES	N/A	N/A	N/A	12,780
4	1040	MISCELLANEOUS	N/A	N/A	N/A	122,780
5	1050	SETTLEMENTS	N/A	N/A	N/A	0
6	1060	UNCOLLECTIBLES	N/A	N/A	N/A	78,914
7	1090	NET REVENUES	N/A	N/A	N/A	10,737,864
EXPENSES						
8	1120	PLANT SPECIFIC	126,170	3,368	2,326,647	2,456,106
9	1130	PLANT NON-SPECIFIC	22,846	1,171	902,178	926,095
10	1140	CUSTOMER OPERATIONS - MARKETING	11,296	763	482,216	494,296
11	1150	CUSTOMER OPERATIONS - SERVICES	16,881	277	821,839	840,788
12	1160	CORPORATE OPERATIONS	51,387	862	1,161,749	1,214,045
13	1170	ACCESS	0	0	0	0
14	1180	DEPRECIATION / AMORTIZATION	70,774	2,624	2,308,184	2,881,673
15	1190	TOTAL OPERATING EXPENSES	301,291	9,207	7,652,779	7,963,380
16	1290	OTHER OPERATING INCOME / LOSSES	(185)	(9)	(7,480)	(7,683)
NON-OPERATING ITEMS						
17	1320	JURISDICTIONAL DIFFERENCES	N/A	N/A	N/A	N/A
18	1330	EXTRAORDINARY ITEMS	(27)	8	(1,034)	(1,081)
19	1340	ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	627	13	23,262	23,900
20	1350	SPECIAL CHARGES	364	15	14,889	15,080
21	1360	ALL OTHER NON-OPERATING ITEMS	53	0	2,081	2,113
22	1390	TOTAL NON-OPERATING ITEMS	(120)	15	(2,868)	(2,914)
OTHER TAXES						
23	1410	STATE AND LOCAL INCOME	N/A	N/A	N/A	101,329
24	1420	OTHER STATE AND LOCAL	N/A	N/A	N/A	588,846
25	1490	TOTAL OTHER TAXES	N/A	N/A	N/A	639,978
26	1590	NET FEDERAL INCOME TAX	N/A	N/A	N/A	489,733
SELECTED BALANCE SHEET ACCOUNTS						
PLANT IN SERVICE						
27	1620	SUPPORT PLANT	119,248	5,728	4,711,677	4,836,667
28	1630	OPERATOR SYSTEMS EQUIPMENT	N/A	N/A	N/A	N/A
CENTRAL OFFICE EQUIPMENT --						
29	1640	SWITCHING	N/A	N/A	N/A	N/A
30	1650	TRANSMISSION	61,307	N/A	5,302,012	5,363,321
31	1660	CABLE & WIRE FACILITIES	282,280	N/A	25,980,470	26,262,766
32	1670	INFORMATION ORIGINATION AND TERMINATION EQUIPMENT	421,888	36,642	625,763	1,083,274
33	1680	AMORTIZABLE ASSETS	5,578	220	217,202	222,996
34	1690	TOTAL PLANT	900,888	41,390	36,447,027	37,389,497
OTHER INVESTMENTS						
35	1705	OTHER JURISDICTIONAL ASSETS-NET	N/A	N/A	N/A	N/A
36	1710	PROPERTY HELD-FUTURE USE	27	6	1,202	1,237
37	1720	PLANT UNDER CONSTRUCTION	14,386	498	800,731	815,584
38	1730	PLANT ACQUISITION ADJUSTMENTS	86	0	3,884	3,949
39	1740	INVESTMENT-NON-AFFILIATED COMPANIES	11	6	888	901
40	1750	OTHER DEFERRED CHARGES	780	310	30,892	32,083
41	1760	INVENTORIES	3,748	37	150,888	154,672
42	1790	TOTAL OTHER INVESTMENTS	22,184	1,479	920,937	944,632
RESERVES						
43	1820	ACCUMULATED DEPRECIATION	482,794	26,008	16,263,627	16,872,436
44	1830	ACCUMULATED AMORTIZATION	2,836	146	106,386	112,262
45	1840	DEFERRED FEDERAL INCOME TAX	62,360	3,048	2,378,326	2,441,783
46	1850	CUSTOMER DEPOSITS	1,407	58	48,673	51,147
47	1870	OTHER DEFERRED CREDITS	988	184	33,782	34,915
48	1880	ALL OTHER RESERVE ITEMS	17,488	1,700	670,712	689,900
49	1890	TOTAL RESERVES	559,002	31,134	19,627,036	20,217,170

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PRELIMINARY STATISTICS OF COMMUNICATIONS COMMON CARRIERS

TABLE 2.12 - JURISDICTIONAL STATISTICS OF TELEPHONE CARRIERS REPORTING QUARTERLY TO THE COMMISSION
AS OF DECEMBER 31, 1995 AND FOR THE YEAR THEN ENDED

ALL REPORTING LOCAL EXCHANGE COMPANIES

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

LINE NO.	ROW NO.		TOTAL	NON-REGULATED AND ADJUSTMENTS	SUBJECT TO SEPARATIONS	STATE	INTERSTATE
SELECTED INCOME STATEMENT ACCOUNTS							
REVENUES							
1	1010	BASIC LOCAL SERVICE	\$46,112,886	3373	\$46,112,882	\$46,005,368	\$1,883
2	1020	NETWORK ACCESS SERVICES	28,886,874	(23,702)	28,910,576	7,302,113	22,244,188
3	1030	TOLL NETWORK SERVICES	10,516,784	67,481	10,748,285	10,418,728	368,800
4	1040	MISCELLANEOUS	10,242,286	4,698,880	8,543,614	4,903,788	824,886
5	1050	SETTLEMENTS	(2,800)	3,106	(5,904)	(6,888)	788
6	1060	UNCOLLECTIBLES	1,168,878	67,108	1,112,781	888,708	113,806
7	1090	NET REVENUES	\$6,886,331	4,888,823	\$8,308,888	\$7,401,402	23,388,887
EXPENSES							
8	1120	PLANT SPECIFIC	18,888,186	2,201,884	16,887,888	12,881,888	4,286,881
9	1130	PLANT NON-SPECIFIC	7,040,888	482,888	6,558,888	4,888,888	1,721,114
10	1140	CUSTOMER OPERATIONS - MARKETING	3,888,188	488,748	3,488,400	2,888,384	881,848
11	1150	CUSTOMER OPERATIONS - SERVICES	8,888,728	613,887	8,071,888	7,834,301	1,431,882
12	1160	CORPORATE OPERATIONS	11,488,410	888,187	10,602,215	8,178,218	2,388,278
13	1170	ACCESS	1,888,173	5,888	1,284,287	1,288,884	28,181
14	1180	DEPRECIATION / AMORTIZATION	18,788,840	328,888	18,482,847	14,411,884	4,888,848
15	1190	TOTAL OPERATING EXPENSES	72,137,823	4,748,320	67,388,207	61,882,882	16,888,882
16	1290	OTHER OPERATING INCOME / LOSSES	(8,421)	18,188	(27,888)	(10,773)	(18,727)
NON-OPERATING ITEMS							
17	1320	JURISDICTIONAL DIFFERENCES	(388,882)	(23,184)	(282,884)	(282,884)	N/A
18	1330	EXTRAORDINARY ITEMS	(137,343)	(128,882)	(7,781)	(6,888)	(2,188)
19	1340	ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	188,386	2,888	182,888	188,888	47,011
20	1350	SPECIAL CHARGES	384,881	228,741	124,313	84,384	28,388
21	1380	ALL OTHER NON-OPERATING ITEMS	2,818,470	2,788,388	22,301	18,884	2,841
22	1390	TOTAL NON-OPERATING ITEMS	(2,223,824)	(2,413,888)	188,388	211,132	(6,188)
OTHER TAXES							
23	1410	STATE AND LOCAL INCOME	881,205	(31,718)	712,824	488,788	384,877
24	1420	OTHER STATE AND LOCAL	4,671,738	78,381	4,488,388	3,888,872	982,812
25	1480	TOTAL OTHER TAXES	5,282,341	48,341	5,288,388	3,817,870	1,287,490
26	1580	NET FEDERAL INCOME TAX	4,821,884	(27,884)	4,678,123	2,787,812	1,738,438
SELECTED BALANCE SHEET ACCOUNTS							
PLANT IN SERVICE							
27	1620	SUPPORT PLANT	42,388,376	2,713,118	38,488,288	30,448,148	8,807,888
28	1630	OPERATOR SYSTEMS EQUIPMENT	1,027,110	(61,483)	1,088,888	881,217	137,377
		CENTRAL OFFICE EQUIPMENT - -		0			
29	1640	SWITCHING	55,388,838	3,871,312	52,338,817	43,388,482	8,888,870
30	1650	TRANSMISSION	88,888,737	(488,822)	88,473,882	88,118,188	17,318,821
31	1660	CABLE & WIRE FACILITIES	128,187,888	2,382,187	128,838,888	88,738,818	31,888,418
32	1670	INFORMATION ORIGINATOR AND TERMINATION EQUIPMENT	5,888,884	873,737	4,382,888	3,388,178	1,888,488
33	1680	AMORTIZABLE ASSETS	2,042,144	148,828	1,896,218	1,482,817	442,402
34	1690	TOTAL PLANT	278,888,470	8,488,888	270,888,823	201,211,823	88,872,214
OTHER INVESTMENTS							
35	1705	OTHER JURISDICTIONAL ASSETS-NET	8,888,848	2,867,283	3,818,884	3,818,888	0
36	1710	PROPERTY HELD-FUTURE USE	11,110	1,888	9,188	8,884	2,366
37	1720	PLANT UNDER CONSTRUCTION	4,384,188	181,878	4,172,188	3,887,837	1,878,888
38	1730	PLANT ACQUISITION ADJUSTMENTS	188,418	127,888	38,828	21,388	8,882
39	1740	INVESTMENT-NON-AFFILIATED COMPANIES	44,387	88,428	11,888	4,288	1,347
40	1750	OTHER DEFERRED CHARGES	4,888,812	4,288,888	388,848	388,801	88,182
41	1760	INVENTORIES	1,181,423	111,821	1,048,388	783,887	274,880
42	1790	TOTAL OTHER INVESTMENTS	18,848,848	7,708,221	9,248,888	7,818,883	1,788,880
RESERVES							
43	1820	ACCUMULATED DEPRECIATION	128,788,342	8,123,388	118,874,883	88,818,848	38,871,388
44	1830	ACCUMULATED AMORTIZATION	1,888,238	81,880	888,281	738,824	221,828